

## Record results achieved in a time of high turbulence

This can be expected from a defensive share



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## REPORT BY THE GROUP CHIEF FINANCIAL OFFICER

### RESULTS

The over-supply of agricultural credit over the last decade was suddenly curtailed after the Land Bank ran into liquidity problems in March 2020. Together with the Covid-19 impact on the banking sector, credit extension to SA Agriculture declined by approximately 25%. A super cycle in soft commodities, characterised by high volumes of commodities produced as well as high commodity prices, unlocked a lot of cash in the industry which countered the lack of liquidity and credit appetite to a large extent. A number of input suppliers sold their products to producers against deferred payment arrangements, which brought further relief for the client at the cost of an increased risk profile and a loss in income to the supplier.

**However, the above crises created several opportunities for Senwes, which the group utilised as follows:**

- The Suidwes consolidation brought the opportunity to add critical mass, lower unit costs as well as the implementation of various cost saving opportunities due to the integration of the two companies. This opportunity will be utilised further during the coming year since the integration will only be fully finalised after 1 May 2021.
- The unbundling of the AFGRI retail business and the return thereof

to the original shareholder, were finalised on 1 October 2020 and the refocus of the business, the cost saving programmes and the re-negotiation of terms with the most important suppliers, ensured that the business was turned around in time to utilise the good cycle.

- The full 12-month results of KLK were included in the results of the Senwes Group for the first time (2020: results for eight months were included) and despite the Covid-19 impact on this group, higher than expected results were delivered.
- Senwes closed its mill-door business on 1 August 2020 and introduced its new basis trading platform to the market as alternative for the previous obsolete model. The rate of acceptance by the market was a huge surprise and increased volumes have been taken up by this platform. The physical transport operations were converted to a transport brokerage solution to create an asset-light, admin-light, low cost structure fully integrated with its supply chain.
- Senwes complimented its mechanisation solution by adding medium and small equipment solutions. After the first full year following the acquisition of Falcon, record results were achieved and the mechanisation portfolio is now well-balanced.

“ A super cycle in soft commodities, characterised by high volumes of commodities produced as well as high commodity prices, unlocked a lot of cash in the industry which countered the lack of liquidity and credit appetite to a large extent. ”

## GROUP SEGMENTAL RESULTS

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
<b>Input Supply</b>	<b>584</b>	<b>148</b>	<b>30</b>	<b>(59)</b>	<b>43</b>
Mechanisation cluster	186	53	43	(37)	48
Retail cluster	223	65	9	(1)	18
Wholesale cluster	(5)	(31)	(21)	(21)	(20)
Input manufacturing cluster	28	5	(1)	-	(3)
Business combination profit	152	56	-	-	-
<b>Financial Services</b>	<b>121</b>	<b>201</b>	<b>168</b>	<b>160</b>	<b>147</b>
Credit cluster	134	190	159	151	139
Insurance cluster	9	11	9	9	8
Impairment on investment	(22)	-	-	-	-
<b>Market Access</b>	<b>215</b>	<b>186</b>	<b>300</b>	<b>412</b>	<b>85</b>
Grain cluster	215	186	300	412	85
<b>Profit from operational activities</b>	<b>920</b>	<b>535</b>	<b>498</b>	<b>513</b>	<b>275</b>
<b>Corporate and control cluster</b>	<b>(149)</b>	<b>(89)</b>	<b>(100)</b>	<b>(81)</b>	<b>(46)</b>
<b>Profit after interest, before tax</b>	<b>771</b>	<b>446</b>	<b>398</b>	<b>432</b>	<b>229</b>

### INPUT SUPPLY

#### Mechanisation cluster

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Large and self-propelled machinery (Senwes Equipment)	127	38	33	(38)	47
Southern and Eastern Cape - partnership in large equipment (JDI)	15	(4)	3	1	1
Medium-sized equipment (Falcon)	30	5	-	-	-
Small equipment (Staalmeester)	14	14	7	-	-
<b>Profit after interest, before tax</b>	<b>186</b>	<b>53</b>	<b>43</b>	<b>(37)</b>	<b>48</b>

Good grain volumes and commodity prices enabled producers to catch up on their capital replacement programmes. Record results in respect of spare parts and workshop service sales were the main drivers of the results of this unit and, together with above-normal new whole goods sales and the accelerated liquidation of second-hand stock, good market share and high levels of client satisfaction were achieved. The Southern and Eastern Cape branches experienced a good winter season, followed by good new equipment sales. Staalmeester and Falcon also utilised the cycle and the mechanisation cluster is now well balanced.

#### Retail cluster

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Senwes area of responsibility: Hinterland Holdings (pre-October 2020 50%)	70	(8)	9	(1)	18
KLK area of responsibility: KLK Group (from October 2019)	153	73	-	-	-
<b>Profit after interest, before tax</b>	<b>223</b>	<b>65</b>	<b>9</b>	<b>(1)</b>	<b>18</b>

The good cycle improved business confidence amongst producers during the planting period and due to low levels of input products on the farm carried over from the previous season, producers were ready to spend significant amounts on new season inputs, particularly seed, fertiliser and fuel. The raisin business of KLK retained growth in respect of price and volume and after KLK increased its equity interest by 30% in the Carpe Diem Raisins Group to 80%, the season held a lot of promise, particularly with a weaker rand/dollar exchange rate. Record margins could be negotiated for raisins in international markets. KLK also revised its cost structures and managed to deal with the decreased volumes in particularly the meat value chain as a result of the drought and decreased fuel volumes, lower motor vehicle sales, as well as lower retail turnover resulting from Covid-19.



#### Wholesale cluster

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Wholesale distributor 1 (Prodist pre-October 2020 50%)	(23)	(31)	(21)	(21)	(20)
Wholesale distributor 2 (Agrinet)	18	-	-	-	-
<b>Profit after interest, before tax</b>	<b>(5)</b>	<b>(31)</b>	<b>(21)</b>	<b>(21)</b>	<b>(20)</b>

The wholesale unit (Prodist) was in trouble after the merger with AFGRI and could not achieve the critical mass to break even. After the merger with Agrinet, duplicated structures could be rationalised and the consolidated unit should deliver good returns in the coming seasons. Other wholesale suppliers had to close their businesses, mostly due to the impact of Covid-19, which brought about market reorganisation.

#### Input manufacturing cluster

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Lime production (Bastion Lime - 50%)	8	4	(1)	-	(2)
Pest control	18	-	-	-	-
Laboratory services (NviroTek & Wynland Labs)	2	-	-	-	-
<b>Profit after interest, before tax</b>	<b>28</b>	<b>4</b>	<b>(1)</b>	<b>-</b>	<b>(2)</b>

After the good season the need of producers to have their soil analysed (laboratory services) and thereafter to correct the soil ph-balance (agricultural lime applications), increased dramatically. In addition, pest control for the domestic market created new expectations and the Protek trademark took up more market space at retailers.

**FINANCIAL SERVICES**
**Credit cluster**

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Credit (Agri Credit Solutions)	134	190	159	151	139
<b>Profit after interest, before tax</b>	<b>134</b>	<b>190</b>	<b>159</b>	<b>151</b>	<b>139</b>

As already referred to, the 2019/2020 crop was liquidated at high cash prices, which enabled producers to meet their loan obligations. Low levels of debt in arrears were evident by 31 August 2020 and a mere 1% was reflected on 30 April 2021. Low credit margins were reflected due to the lower credit risk and the utilisation of credit was, on average, 1% lower than the previous financial year. Although results declined as interest rates collapsed, the lower risk profile helps a lot in times when the financial sector suffers from the impact of Covid-19 as well as Land Bank failing to meet its obligations.

**Insurance cluster**

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Insurance brokers (Certisure Group 50%)	5	8	6	6	8
Insurance brokers (Raddix Group)	1	-	-	-	-
Underwriting cell captive (Molemi Sele 35.65%)	3	3	3	3	-
<b>Profit after interest, before tax</b>	<b>9</b>	<b>11</b>	<b>9</b>	<b>9</b>	<b>8</b>

The insurance business under-performed due to the cancellation by NWK of its corporate insurance contract with Certisure, as well as lower than expected credit life insurance. It was decided to realise an impairment in respect of a portion of the investment in Certisure to correct the lower activity level. The unbundling of the business was negotiated post balance sheet date and a 100% consolidation with the Raddix Group is foreseen by the second quarter of the new financial year.

**NORMALISED HEADLINE EARNINGS AND GROWTH**

	%	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
<b>Net profit before tax before NCI</b>	73%	771	446	398	432	229
Taxation	61%	(176)	(109)	(115)	(121)	(62)
NCI	103%	(69)	(34)	(2)	(1)	(1)
<b>Profit after tax and NCI</b>	<b>74%</b>	<b>526</b>	<b>303</b>	<b>281</b>	<b>310</b>	<b>166</b>
<b>Adjusted by:</b>						
Gain on bargain purchase investment		(124)	(56)	-	-	-
Gain on the disposal of investment in joint venture		(28)	-	-	-	-
Impairments/(reversal of impairments) of investments and loans		(9)	(12)	-	8	17
Impairment of goodwill		29	12	-	-	-
Legal and consultation fees		15	6	16	-	-
Restructuring costs		11	-	-	13	-
Other		-	(7)	(2)	(4)	-
<b>Net profit after tax from operational activities (normalised headline earnings)</b>	<b>71%</b>	<b>420</b>	<b>246</b>	<b>295</b>	<b>327</b>	<b>183</b>

Profit before tax increased by 73% from R446m to R771m, while earnings of R526m were 74% higher than the R303m of the 2020 financial year. With the abnormal and once-off items deducted, normalised headline earnings increased by 71%, from R246m to R420m. The five-year average growth in normalised headline earnings has been 31,7% per year. A return of 20,5% on opening equity (2020: 13%) was achieved by the group whilst a gearing ratio of 138% (2020: 144%) was maintained, even after taking into account the expansion due to consolidation.

**MARKET ACCESS**
**Grain cluster**

	2021 R'm	2020 R'm	2019 R'm	2018 R'm	2017 R'm
Silo and handling services (Grainlink)	182	173	260	385	146
Grain Market Intelligence (Basislink and Tradevantage pre-August 2020)	32	(8)	18	14	(68)
Transport and logistics provider (Grainovation pre-2020 50%)	5	11	6	6	6
Seed processing (Senwes Seed)	(1)	10	16	7	1
Commodity trading (Africum Commodities)	(3)	-	-	-	-
<b>Profit after interest, before tax</b>	<b>215</b>	<b>186</b>	<b>300</b>	<b>412</b>	<b>85</b>

Very low carry-over stock levels, quality challenges, an accelerated dispatch cycle and higher than normal tonnages of grain flowing past silos paved the way for a very challenging season. Although several mitigating actions were taken, the season could not reach its full potential. Fortunately, the new Grain Market Intelligence unit was well-received by grain traders and millers and the capital which was utilised in the mill-door business, could be reapplied in a more economical manner than the procurement solution which was on the table at the time. However, later during the season the market taught us that companies which did not respond timeously to quality and physical challenges, were impacted in an even more negative manner in respect of price and delivery on contracts. Millers and consumers were probably more exposed to price and quality realities and the market should also reorganise to meet this new reality.

**RECONCILIATION OF GROWTH**

	Earnings before tax	
	Total R'm	%
<b>Profit before tax and NCI 2020</b>	<b>446</b>	
Profit from business combinations - 2020	(56)	(13%)
Increased grain volumes due to bigger harvest	61	14%
Increased commission and margin from new grain procurement business model	18	4%
Increased mechanisation goods and parts	124	28%
Better supplier conditions negotiated on retail business	18	4%
Discontinued operations (exit petfood operations)	11	2%
Profit from business combinations - 2021 (Suidwes and Hinterland)	124	26%
Movement in impairment of goodwill, loans and investments (Certisure)	(20)	(4%)
Higher credit margins	7	1%
Decrease in bad debt provisions	13	3%
Non-traditional costs including transactional costs, legal fees and restructuring expenses	(55)	(12%)
Operational profits realised in subsidiaries acquired - 2021	48	11%
Increase in KLK Landbou's profit included in the group results (full 12-month period)	21	5%
Other	11	3%
<b>Profit before tax and NCI 2021</b>	<b>771</b>	<b>73%</b>

## SIMPLIFIED STATEMENT OF FINANCIAL POSITION

		2021 R'm	2020 R'm
Property plant and equipment	①	2 286	1 290
Intangible assets		133	41
Investments in JV's and associate		169	216
Inventory	②	1 846	882
Derivative financial instruments		204	86
Debtors and receivable loans	③	5 580	5 471
- Long-term		1 376	1 736
- Short-term		4 204	3 735
Agency inventory		10	105
Cash		18	174
Other		217	76
<b>TOTAL ASSETS</b>		<b>10 463</b>	<b>8 341</b>
<b>EQUITY AND LIABILITIES</b>			
Own equity		2 959	2 560
Non-controlling interest		376	343
Long-term debt	②	90	670
Short-term debt	①	4 303	3 704
Creditors	③	1 885	800
Bank overdraft	①	473	109
Other		377	154
<b>TOTAL LIABILITIES</b>		<b>10 463</b>	<b>8 341</b>
<b>NAV</b>	<b>14,2%</b>	<b>R17,20/s</b>	<b>R15,06/s</b>
<b>Gearing ratio</b>	<b>6,0%</b>	<b>138%</b>	<b>144%</b>

## FUTURE ESTIMATE

An above normal grain season with higher grain and oil seeds volumes and fewer quality problems is foreseen. Since the grain commodity price was below export parity for the largest part of the year, strong exports are expected to materialise during the season, but can be countered by ineffectiveness and congestion at ports, as well as an above normal grain production in the SADC-region.



## CAPITAL ALLOCATION

Capital is mainly allocated to capital projects, credit extended to producers, machinery and retail stock, as well as working capital for expansion into new markets. Material movements can be explained as follows:

- ① Property, plant and equipment increased by R996m during the year. The addition of the Hinterland and Suidwes Groups into the Senwes Group, represented R970m of this increase.
- ② Increase of R964m in inventory, which mostly relates to the inclusion of Suidwes and Hinterland's inventory of R653m. The equipment companies also increased their inventory by R207m due to the higher demand and long lead times as a result of Covid-19.
- ③ There was a slight increase in the debtors and other receivables of 2%. The growth in the debtors' book was primarily due to a 13% increase in production credit, fuelled by a super input supply cycle. However, it was countered by a 21% decrease in term loans.

## HOW WE FUND

Own equity increased by R399m, while long and short-term loans increased by R1,1bn. This can be explained as follows:

- ① The short-term debt increased by R599m to fund operating expenses and acquisitions. The unutilised short-term facility of R1,3bn (2020 R1,1bn) ensures adequate liquidity for growth opportunities and further expansion.
- ② The long-term loan became payable in June 2021 and was therefore reclassified as a short-term liability.
- ③ The increase in trade creditors mostly funded the increase in inventory.

The relatively good soft commodity prices will very likely result in producers selling their crops at a record turnover and surplus cash will very likely be invested in new land acquisitions, as well as the replacement of capital goods and farming equipment.

With a good turnover generated from the 2020/21 harvest, business confidence and planting intentions will probably be high for the next season. High soil moisture levels should also result in producers spending even more on next season inputs. However, the uptake of credit should slow down because of the surplus cash available in the market.

## CLOSING REMARKS

As expected, the management and staff of Senwes stepped up during one of the most difficult times experienced globally over the past 70 years. As one of the essential services, Senwes staff obtained permits to work from lockdown level 5 and the harvest was taken in, tractors were serviced, essential inputs were sold by retail branches, support services were rendered – all these things were done with passion and abandon. We would like to thank you and to make special mention of our personnel, customers, financiers, investors and our board of directors. May God bless our company and all its people during the 2021/2022 financial year.

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Klerksdorp